

Le Grand Annington Limited
(Registered Number: 3591675)

Annual Report and Accounts
Year Ended 31 March 2006

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Le Grand Annington Limited

Directors' Report For The Year Ended 31 March 2006

The Directors present their annual report and the audited accounts of the Company and Group for the year ended 31 March 2006.

Principal activities

The Group's principal activity during the year was property investment. The activity of the Group is expected to continue at similar levels for the foreseeable future.

Results and dividends

The Group's loss after taxation and before minority interest for the year is £30,645,000 (2005: £2,035,000 profit). After minority interest the loss for the year is £6,971,000 (2005: £1,274,000) No dividend has been paid or proposed (2005: £nil).

Directors and their interests

The directors who held office throughout the year are given below:

Cormac O'Haire
Tom Quigley

As at 31 March 2006 the directors had no interests in the shares of the Company or any other company within the Le Grand Annington Limited Group.

Le Grand Annington Limited

Directors' Report For The Year Ended 31 March 2006

Background

The Annington Group ("the Group") purchased certain interests in part of the Married Quarters Estate ("MQE") in England and Wales from the Secretary of State for Defence, together with certain related assets, following a competitive bid on 5 November 1996.

This purchase included approximately 760 sites containing 55,362 housing units (the "Retained Estate") and approximately 58 sites containing 2,374 units (the "Surplus Estate"), together in each case with certain related assets. The Surplus Estate was transferred to the Annington Group with freehold title and arrangements relating to the supply of certain utilities.

The Retained Estate was leased back to the Secretary of State for Defence under certain Underleases to be used by the Ministry of Defence ("MoD") to provide housing for married Service personnel and their families. The Underleases provide for the Secretary of State for Defence to pay rent at a level less than market value on a quarterly basis. These rents are subject to 5 yearly review to market values, subject to the agreed discount. All properties subject to these arrangements continue to be maintained by and remain entirely under the control of the Ministry of Defence dependent upon their operational needs from time to time.

Within the Agreements, there are certain obligations on the part of the Secretary of State for Defence with regard to guaranteed payment arrangements and a pre-set minimum number of units to be transferred to the Group by the end of each year during the first twenty five years following the initial acquisition. The identification of surplus properties and the timing of their release to the Group is entirely at the discretion of the Secretary of State for Defence and upon not less than six months' notice the Group is obliged to accept any properties declared surplus.

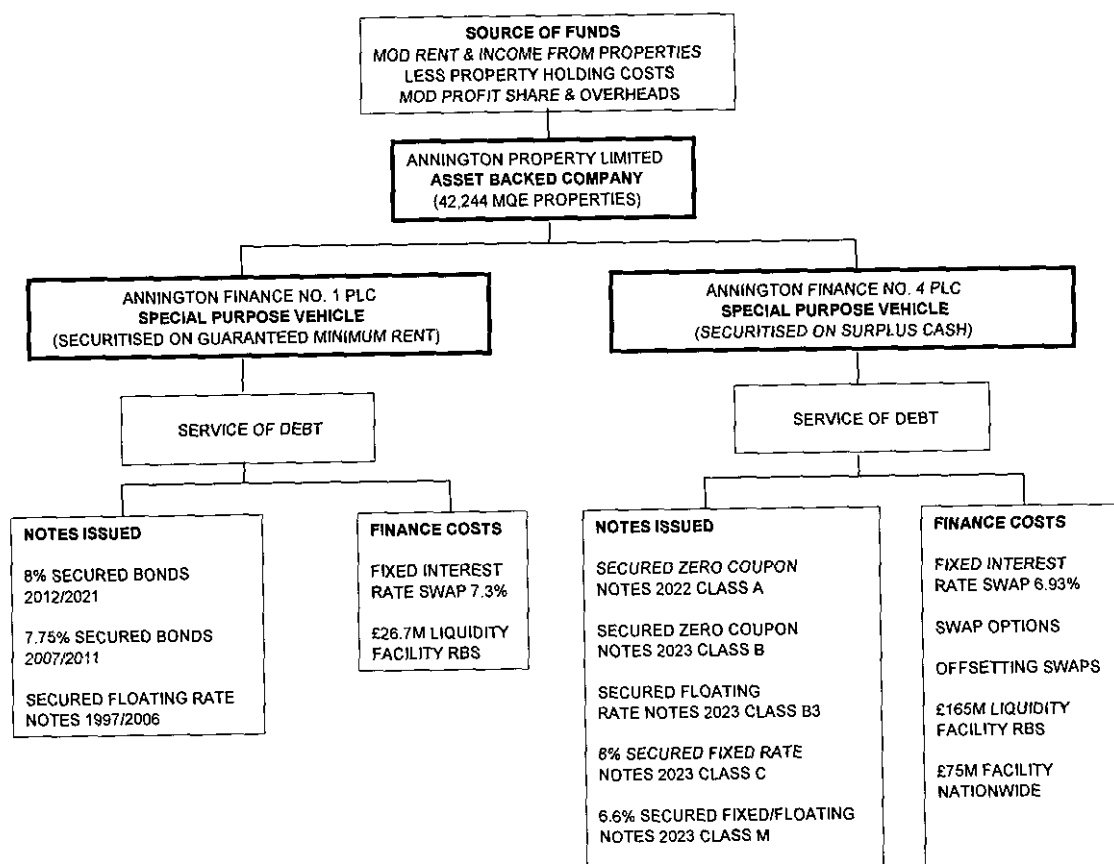
Once units are transferred, all options, including third party disposal, rental or redevelopment are rigorously appraised to optimise returns to the Group. The Group is obliged to make arrangements/provide for utility supplies necessary to make the units available for third party occupation. In addition, the Group assesses what level of refurbishment might be undertaken to create added value. The Group bears the cost of both categories of work before lettings or sales are achieved. A proportion of costs of returning the units to tenantable condition are recoverable by way of claims for dilapidations.

At the time of acquisition, the Secretary of State for Defence and the Group entered into a Profit Share Agreement whereby companies within the Group are obliged to make payments to the Secretary of State for Defence calculated on a percentage of certain gains made or deemed to have been made on the disposal of units or sites (including by way of letting, sale or otherwise). The percentage share of such gains reduces over the period to 2011.

A simplified diagram of the principal sources and application of funds is shown overleaf:

Le Grand Annington Limited

Directors' Report For The Year Ended 31 March 2006



Borrowings Risk Management

As will be seen from above and Note 21, the principal funding of the Group is through the issue of a series of secured zero coupon, floating rate and fixed rate notes issued by Annington Finance No. 1 plc ("AF1") and Annington Finance No. 4 plc ("AF4"). These Notes, together with swap arrangements and liquidity facility arrangements, provide long term protection against interest rate and liquidity risk.

Other risks and uncertainties

The directors consider that a potential risk to the Company's/Group's activities could exist if MoD terminated leases on a significant number of properties over a short period of time, during which activity levels in the general housing market were low. In such circumstances, the Company/Group would suffer a reduction in rent from MoD at the same time as sales were proving difficult. However, the directors are of the view that the overall demand for housing would continue and that demand for "market renting" would be strong during such a period, reducing the overall impact on the Company's/Group's position.

Significant Events During the Year

A total number of 1,507 (2005: 780) unit sales were completed during the year of which 106 (2005: 131) were bulk sales. The strategy of restricting the number of bulk sales, as in previous years, is leading to greater added value being retained by the Group.

The Group continued to improve its marketing initiatives, including targeted advertising and PR, together with incentives targeted at first-time buyers.

Le Grand Annington Limited

Directors' Report For The Year Ended 31 March 2006

Significant Events During the Year (continued)

During the year, 601 units were sold by Annington Property Limited at a market value of £72 million to subsidiaries of Annington Rentals (Holdings) Limited, which is a subsidiary of Annington Holdings plc, an intermediate holding company which is a subsidiary of the Company. Annington Rentals (Holdings) Limited entered into separate banking arrangements and the intention is to grow this sub-Group into a sustainable business outside the securitisation structure.

Operations

As at 31 March 2006, 13,021 (2005: 12,829) of properties in the Retained Estate have been released, in addition to the original 2,374 (Surplus Estate). A total of 14,351 properties (2005: 12,905) have been sold or were in the process of being sold and a further 297 (2005: 989) were rented to third party companies and private individuals. Under the terms of the Agreement with the MoD there is a Guaranteed Minimum of 13,213 units to be released before November 2022. Consequently, only a further 192 units need to be released to meet this obligation.

Of the units sold to private purchasers 35% (2005: 23%) were sold to serving or former military personnel.

During the year the Group continued to refine its strategies for dealing with future sites to ensure units are prepared for disposal more efficiently.

The Group continues to increase the number of private rental opportunities, as a means of establishing market comparables for use in the rent review and to achieve positive cashflow whilst awaiting grant of planning permission. In addition, successful achievement of planning consent for redevelopment opportunities is resulting in a number of sites being sold with the benefit of planning permission. Attention has been focused on these operations to establish more aggressive pursuit of these opportunities to achieve longer term financial benefit for the Group.

Further, third party relationships continue to assist potential purchasers in the process of acquiring properties from Annington, particularly for first-time buyers. These include relationships with an Independent Financial Adviser, conveyancing solicitors, etc. to ensure that sales progress smoothly.

The Profit Share Agreement with the Secretary of State for Defence has resulted in payments amounting to £29.4 million (2005: £15.4 million) being made to H.M. Treasury for the year.

The Group made a loss of £30.6 million after taxation and before minority interests during the year ended 31 March 2006 (2005: £2.0 million profit).

Through the various arrangements outlined on the previous page, the Group is protected against adverse movements in interest rates and is protected in the short term from either delays in receipt of the Guaranteed Minimum Rental payment from the MoD or shortfalls in operational cashflow as a result of adverse market conditions.

Policy on Payment of Creditors

The Company's policy is to agree terms of the payment with suppliers and these normally provide for payment within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Group owed £1.4 million to trade creditors at 31 March 2006 (2005: £2.1 million), the number of days to be shown in this report, to comply with the provisions of paragraph 12(3) of part VI of schedule 7 of the Companies Act 1985, is 20 days (2005: 29 days).

Le Grand Annington Limited

Directors' Report For The Year Ended 31 March 2006

Statement of Directors' responsibilities

The Directors are required by United Kingdom company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors


Each of the persons who is a director at the date of approval of the report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Deloitte & Touche LLP has expressed its willingness to continue in office and a resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



J.B. Chambers

Secretary

31 January 2007

Registered Office:

1 James Street
London W1U 1DR

Independent Auditors' Report To The Members of Le Grand Annington Limited

We have audited the Group and individual company financial statements (the "financial statements") of Le Grand Annington Limited for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost profits and losses, the consolidated and individual company balance sheets, the consolidated cash flow statement and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report contained in the annual report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

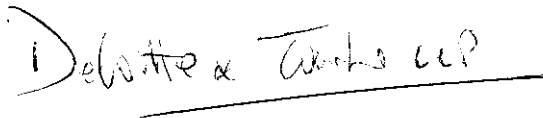
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report To The Members of Le Grand Annington Limited

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the individual company's affairs as at 31 March 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

Date 31 January 2007

Le Grand Annington Limited

Consolidated Profit And Loss Account For The Year Ended 31 March 2006

	Note	2006 £'000	2005 £'000
Turnover			
Group income and share of joint venture's turnover	1,2	153,767	138,092
Less share of joint venture's turnover		(10,239)	(384)
Group turnover		143,528	137,708
Cost of sales		(17,543)	(16,033)
Gross profit		125,985	121,675
Administration expenses		(12,579)	(9,878)
Group operating profit	3	113,406	111,797
Share of operating loss in joint venture		1,076	(14)
Profit on sale of properties	5	34,291	22,996
Profit on ordinary activities before finance charges and taxation		148,773	134,779
Interest receivable and similar income	6	13,540	13,235
Interest payable and similar charges	7	(192,779)	(145,979)
(Loss)/profit on ordinary activities before taxation		(30,466)	2,035
Tax on (loss)/profit on ordinary activities	8	(179)	-
(Loss)/Profit on ordinary activities after taxation		(30,645)	2,035
Minority interest	25	23,674	(3,309)
Retained loss for the financial year	24	(6,971)	(1,274)

All income was derived from within the United Kingdom from continuing operations.

Consolidated Statement Of Total Recognised Gains And Losses For The Year Ended 31 March 2006

	Note	2006 £'000	2005 £'000
Loss attributable to shareholders		(6,971)	(1,274)
Surplus on revaluation of properties	23	6,051	656
Total recognised gains and losses for the financial year		(920)	618

Le Grand Annington Limited

Consolidated Note Of Historical Cost Profits and Losses For The Year Ended 31 March 2006

	2006 £'000	2005 £'000
Reported (loss)/profit before taxation for the financial year	(30,466)	2,035
Realisation of property revaluation gains of previous years	34,152	22,080
Historical cost profit on ordinary activities before taxation	3,686	24,115
Historical cost loss for the year retained after taxation and minority interests	(16,662)	(2,890)

Le Grand Annington Limited

Consolidated Balance Sheet as at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10		136		414
Investment properties	10		3,635,286		3,322,142
			3,635,422		3,322,556
Investment in joint ventures					
Share of gross assets		5,190		7,095	
Share of gross liabilities		(4,732)		(7,662)	
Share of net assets/(liabilities)		458		(567)	
Loans		1,392		1,118	
	13		1,850		551
Other investments	14		19,528		19,942
			3,656,800		3,343,049
Current assets					
Debtors due within one year	15	7,547		6,551	
Debtors due after one year	16	554		5,450	
Cash at bank and in hand		304,645		291,801	
		312,746		303,802	
Creditors – Amounts falling due within one year	17	(111,321)		(108,751)	
Net current assets/(liabilities)			201,425		195,051
Total assets less current liabilities			3,858,225		3,538,100
Creditors - Amounts falling due after more than one year	18		(2,466,043)		(2,431,753)
Provision for liabilities	19		(2,457)		(2,362)
Net assets			1,389,725		1,103,985
Capital and reserves					
Called up share capital	22		-		-
Revaluation reserve	23		18,021		2,279
Profit and loss account	23		(19,509)		(2,885)
Total equity shareholders' deficit	24		(1,488)		(606)
Minority interest	25		1,391,213		1,104,591
Total capital employed			1,389,725		1,103,985

Approved by the Board on 31 January 2007 and signed on its behalf by:

C. O'Haire
Director

Le Grand Annington Limited

Company Balance Sheet as at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments in Group undertakings	12	-	-	-	-
			-		-
Creditors - Amounts falling due within one year	17	-	-	-	-
Net current assets			-		-
Total assets less current liabilities			-		-
Net assets			-		-
Capital and reserves					
Called up share capital	22		-		-
Revaluation reserve	23		-		-
Profit and loss account	23		-		-
Total equity shareholders' funds	24		-		-

Approved by the Board on 31 January 2007 and signed on its behalf by:

C. O'Haire
Director



Le Grand Annington Limited

Consolidated Cashflow Statement For The Year Ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	30	121,862	112,272
Returns on investments and servicing of finance			
Interest received		13,845	11,468
Interest paid		(138,597)	(115,395)
Net cash outflow from returns on investments and servicing of finance		(124,752)	(103,927)
Taxation		(13)	-
Capital expenditure and financial investment			
Sales of properties		110,980	82,706
Purchase of tangible assets	10	(10,513)	(2,925)
Disposal of other tangible assets		-	22
Purchase of other fixed asset investments		703	(19,942)
Net cash inflow from capital expenditure		100,906	59,861
Acquisitions and disposals			
Loan to joint ventures	13	(1,392)	(1,118)
Loans repaid from joint ventures	13	1,118	-
Investment in joint ventures	13	(10)	(1)
Net cash outflow from acquisitions and disposals		(284)	(1,119)
Net cash inflow before management of liquid resources and financing		97,983	67,087
Financing			
Increase in borrowings		55,443	914,763
Repayment of borrowings		(140,582)	(746,028)
Net cash (outflow)/inflow from financing	31	(85,139)	168,735
Increase in net cash in the year	31	12,844	235,822

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, except as mentioned below.

Basis of accounting

These financial statements are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and investments, and in accordance with applicable United Kingdom accounting standards. The Company has adopted FRS 21, FRS 23, FRS 25 and FRS 26 in the current period. Advantage has been taken of the exemption in FRS 25 and FRS 26 not to restate comparative information to comply with these standards. The effect of the adoption of FRS 26 is set out in Note 21. The adoption of FRS 21 and FRS 23 has had no effect on the financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and joint ventures for the year ended 31 March 2006. The results of the subsidiaries acquired or sold are consolidated for the period from or on the date on which control passed. Acquisitions are accounted for under the acquisition method.

In accordance with FRS 9, "Associate and Joint Ventures", joint ventures are included in the Group Financial Statements under the gross equity method of accounting.

Turnover

Income from the Secretary of State for Defence in respect of the units within the Retained Estate and income from the tenants within the Surplus Estate is accounted for on an accruals basis. Rent increases arising from rent reviews are taken into account when such reviews have been settled with the tenants.

Investment properties

Investment properties are revalued annually on a portfolio basis such that individual property calculations are not performed. The aggregate surpluses or deficits on the portfolio of properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of the departure from the statutory accounting rules cannot reasonably be quantified as depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Sales are accounted for on a legal completion of contract basis. Direct costs (including amounts payable under the Profit Share Agreement) of the sale are offset against the profit/loss on sale. Other costs are dealt with in operating expenses.

The net book value of investment properties is shown net of disposal costs, as determined in accordance with the Profit Share Agreement, which the Company would have incurred had the assets been disposed at the Balance Sheet date.

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

1 Accounting policies (continued)

Profit Share

All property disposals until 5 November 2011 are subject to a Profit Share Agreement based on the principles of the Taxation of Chargeable Gains Act 1992. This Agreement was signed with the Secretary of State for Defence on 5 November 1996. The applicable Profit Share percentage becomes payable on the date of legal exchange for property disposals.

Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

The balances on foreign currency loans are translated at the rates of exchange ruling at the period end and the unrealised exchange differences are dealt with in the profit and loss account as are the realised exchange differences arising on repayments of foreign currency loan during the period.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life, as follows:

Plant, equipment and vehicles:	3 years
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Leases

All of the Group's leases are operating in nature and the annual rentals are charged to operating profit on a straight line basis over the lease term.

Pension costs

The cost of providing contributions to employees' personal defined contribution schemes are charged to the profit and loss account as contributions are made. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

1 Accounting policies (continued)

Borrowings

Borrowings are carried at their net issue proceeds plus finance costs less amounts paid. Finance costs, which comprise interest, discounts and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount. In 1997, the Company entered into a cash equalisation swap to provide funds in respect of anticipated cash shortfalls in the early periods. Borrowing costs are shown net of receipts or payments from this swap arrangement.

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time. Discounts achieved on the repurchase of notes and offsetting swap costs are therefore recognised in the profit and loss account.

The Company's derivative financial instruments are held on the balance sheet at fair value and changes in the fair value are recognised in the profit and loss account as they arise.

Investments

The Company's investments in the shares of the Group undertakings are stated at net asset value at 31 March 2006 and after reflecting warrants held by Nomura International (AH) Limited which has the effect of restricting the value that could be attributed to Le Grand Annington Limited. This includes, where applicable, the professional valuation of properties.

Surpluses and deficits arising from changes in net asset value are taken to the revaluation reserve.

Investments in fixed asset investments are shown at cost less provision for impairment.

2 Segmental reporting

The Group's activities consist solely of property investment in England and Wales.

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

3 Operating profit

Operating profit is stated after charging:

	2006 £'000	2005 £'000
Operating lease payments:		
Plant and machinery	212	140
Buildings	365	365
Depreciation	290	268
Auditors' remuneration		
Audit services	202	208
Non-audit services	15	235

The auditor's remuneration for Le Grand Annington Limited is borne by another Group company, Annington Management Limited, in the current and prior year.

4 Staff costs

The aggregate remuneration comprised:

	2006 £'000	2005 £'000
Wages and salaries including directors' emoluments (see notes 27, 28, 29)	7,671	5,258
Social security costs	379	410
Other pension costs (see note 26)	307	257
	8,357	5,925

5 Profit on disposal of properties

	2006 £'000	2005 £'000
Sale proceeds	138,279	96,852
Selling costs	(6,859)	(4,219)
Profit share payment under Profit Share Agreement	(19,095)	(14,286)
Sale of properties	112,325	78,347
Cost of sales	(78,034)	(55,351)
	34,291	22,996

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

6 Interest receivable and similar income

	2006 £'000	2005 £'000
Interest receivable	13,293	13,038
Other income	41	197
Unrealised foreign exchange gain	206	-
	13,540	13,235

7 Interest payable and similar charges

	2006 £'000	2005 £'000
Interest payable on secured floating and fixed rate notes	106,732	112,391
Exceptional interest credit	-	(30,892)
Interest payable on bank loan	1,714	-
Amortisation of discount and issue costs	56,647	56,736
Other finance charges	19,972	7,618
Unrealised foreign exchange loss	-	94
Fair value on interest rate swaps	7,375	-
	192,440	145,947
Share of joint venture interest payable	339	32
	192,779	145,979

The Exceptional Interest Credit of £30.9 million arose in the prior year on the repurchase of the Floating Rate Notes and relates to interest, unamortised issue costs and discounts at the date of repurchase.

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

8 Tax on ordinary activities

	2006 £'000	2005 £'000
Current tax		
UK corporation tax at 30% (2005: 30%)	-	-
Adjustments in respect of prior year's - UK corporation tax	13	-
Total current tax	13	-
Deferred tax		
Origination and reversal of timing differences	(41)	-
Share of joint ventures' tax	207	-
Total tax on (loss)/profit on ordinary activities	179	-

Factors affecting the tax charge for the year

(Loss)/profit on ordinary activities before tax	(30,466)	2,035
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK at 30% (2005: 30%)	(9,140)	611
Expenses not deductible for tax purposes/(non taxable income)	243	(21,873)
Short term timing differences	1,262	(1,046)
Tax on disposal of property	20,996	10,886
(Utilisation)/creation of tax losses	(13,141)	11,422
Group current tax charge for the year	220	-

The amount of tax losses carried forward at 31 March 2006 is approximately £136 million (2005: £169 million).

	Provided	Unprovided
Deferred tax		
As at 1 April 2005	-	113,349
Movement in the year	-	(11,537)
As at 31 March 2006	-	101,812
Tax losses	-	101,812

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

8 Tax on ordinary activities (continued)

The make up of the deferred tax balances is as follows:

	£'000
LTIP provision	2,861
Losses carried forward	608
Non trading deficit	40,176
Fair value adjustment in debt	58,167
	101,812

On acquisition of Annington Holdings plc, the value of the debt in the acquired Group was revalued to fair value in accordance with Financial Reporting Standard 7. A deferred tax asset has not been recognised in respect of this adjustment, timing differences relating to the long term incentive plan (note 29), or in respect of losses carried forward, as there is insufficient evidence that the asset will be recovered.

The historical cost of the Group's properties is £2,052,025,000 (2005: £2,084,558,000). The tax which would be payable on the surplus arising on the revaluation of fixed asset in the event of their sale at such valuation, is approximately £668,297,000 (2005: £585,950,000).

9 Profit for the Company

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for Le Grand Annington Limited. The Company made a loss of £81 for the year ended 31 March 2006 (2005: loss £65).

10 Fixed assets (Group)

	Investment Properties £'000	Plant Equipment and Vehicles £'000	Total £'000
Cost or valuation			
At 1 April 2005	3,322,142	1,583	3,323,725
Additions	10,500	13	10,513
Disposals	(77,174)	(2)	(77,176)
Revaluation	379,818	-	379,818
At 31 March 2006	3,635,286	1,594	3,636,880
Accumulated depreciation			
At 1 April 2005	-	1,169	1,169
Charge for the year	-	290	290
Disposals	-	(1)	(1)
At 31 March 2006	-	1,458	1,458
Net book value at 31 March 2006	3,635,286	136	3,635,422
Net book value at 31 March 2005	3,322,142	414	3,322,556

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

10 Fixed assets (Group) (continued)

Allsop LLP has prepared a portfolio valuation of the investment properties held by Annington Property Limited in the MoD Married Quarters Retained and Surplus Estate as at 31 March 2006 for the purposes of the financial statements. Allsop LLP is an external valuers and the valuations were undertaken on the basis of market value.

The valuations have been carried out in accordance with the requirements of the RICS Appraisal Valuation Manual, save where it is not, in practical terms, feasible to comply due to the large number of properties involved.

This is a "Regulated Purpose Valuation". However, Allsop LLP has undertaken such valuation work for Annington Property Limited since 1999.

Allsop LLP provides strategic advice and agency services to the Group and has done so since 1997. In relation to Allsop LLP's preceding financial year, Allsop LLP confirms that the proportion of its total fee income arising from the Group was less than 5%.

The Market Value of the properties held by Annington Property Limited as at 31 March 2006 was £4,171 million (2005: £3,858 million). This relates to 42,244 (2005: 42,571) properties within the Retained Estate producing an annual rental income of £141,308,479 (2005: £134,827,289) and 1,186 (2005: 2,359) properties in the Surplus Estate of which 297 (2005: 989) were let on various forms of tenancy, producing an aggregate rental income of £3,991,179 per annum (2005: £6,721,857).

The Market Value of the properties held by the wholly owned subsidiaries of Annington Rentals (Holdings) Limited was £100.2 million (2005: £2.8 million). The block of 22 flats at 1-22 Woodside Court, Chavasse Way, Farnborough owned by Annington Rentals (No. 3) Limited were valued by Romans Professional Services Limited on 15 March 2006 and the block of flats at Aigburth Road, Liverpool owned by Annington Rentals (No. 4) Limited were valued by Savills of 139 Sloane Street, London SW1X 9AY in December 2005. Both blocks were valued on the basis of market value and the directors are of the view that there has been no significant change in the property market and that the value stated in the respective reports represents the Market Value as at 31 March 2006.

Allsop LLP has undertaken valuation at 31 March 2006 of the properties in Annington Rentals (No. 4) Limited. The valuation was a "Regulated Purpose Valuation" on the basis of Market Value. The valuations are being carried out in accordance with the requirements of the RICS Appraised Valuation Manual, save where it is not, in practical terms, feasible to comply due to the large number of properties involved.

The remaining properties have been valued by the directors on the basis of Market Value by identifying comparable properties sold and for sale at or around 31 March 2006. Where appropriate, the directors have made adjustments in respect of conditions, position and accommodation, etc.

The Net Book Amount shown above of £3,635 million (2005: £3,322 million) is net of disposal costs of £636 million (2005: £539 million), calculated in accordance with the profit share arrangement, which the Group would have incurred had the assets been disposed at the balance sheet date.

	2006 £'000	2005 £'000
The net book amount of properties comprises		
Freehold	176,164	198,902
Very long leaseholds (over 900 years)	3,459,122	3,123,240
	3,635,286	3,322,142

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

10 Fixed assets (Group) (continued)

Properties would have been included on an historical cost basis as follows:

	Properties	
	2006 £'000	2005 £'000
Cost	2,052,025	2,084,558
Net book amount	2,052,025	2,084,558

11 Operating lease commitments (Group)

Annual commitments under non-cancellable bases, are as follows:

	Land and Buildings 2006 £'000	Other 2006 £'000	Land and Buildings 2005 £'000	Other 2005 £'000
Leases which expire :				
within 1 year	-	31	-	56
within 2-5 years	-	186	-	100
After more than 5 years	371	-	371	-
	371	217	371	156

12 Investment in Group undertakings

	2006 £'000	2005 £'000
Value brought forward	-	6
Revaluations	-	(6)
Value carried forward	-	-

The historical cost of the investment in Annington Holdings plc was £1 (2005: £1).

Le Grand Annington Limited owns 52% of Annington Holdings plc. The principal undertakings of Annington Holdings plc at 31 March 2006, all of which are wholly owned and included in the consolidated financial statements, are shown below:

Name of subsidiary undertaking	Country of Incorporation	Principal Activity
Annington Holdings plc*	Great Britain	Intermediate Group Holding company
Annington Homes Limited	Great Britain	Intermediate Group Holding Company
Annington Property Limited	Great Britain	Property investment
Annington Management Limited	Great Britain	Management
Annington Receivables Limited	Great Britain	Income management
Annington Finance No.1 plc	Great Britain	Finance
Annington Finance No.4 plc	Great Britain	Finance

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

12 Investment in Group undertakings (continued)

Name of subsidiary undertaking	Country of Incorporation	Principal Activity
Annington Developments (Holdings) Limited	Great Britain	Intermediate Holding Company
Annington Rentals (Holdings) Limited	Great Britain	Intermediate Holding Company
Annington Rentals Limited	Great Britain	Property Investment
Annington Rentals (No. 2) Limited	Great Britain	Property Investment
Annington Rentals (No. 3) Limited	Great Britain	Property Investment
Annington Rentals (No. 4) Limited	Great Britain	Property Investment

* The shares in Annington Holdings plc are directly owned by the Company.

As permitted by Section 231(5) of the Companies Act 1985, particulars of other subsidiary undertakings are not shown above on the grounds that the information would be of an unduly excessive length. A complete list of Group undertakings will, however, be filed with the Annual Return.

Annington Homes Limited has issued 75,636 warrants to Nomura Investments (AH) Limited, allotted and fully paid amounting to £7,563,600 at an exercise price of £19,696 each. If the warrants are not exercised before 1 January 2015 the exercise price will increase to £21,666. Each warrant entitles the holder to subscribe for one ordinary share in Annington Homes Limited when exercised.

These warrants are exercisable at any time and Nomura Investments (AH) Limited has no other rights to take up shares in the Company.

The eventual date on which the warrants may be exercised is currently not determined and consequently no value has been attributed to these warrants in the balance sheet other than the original subscription monies paid in 1996. These warrants have been included as part of minority interests (note 25).

13 Investment in joint ventures

Annington Developments Limited has a 50% investment in Annington Wates (Cove) Limited as from 22 July 2004. It also has a 50% investment in Countryside Annington (Colchester) Limited as from 31 March 2006.

The principal undertakings at 31 March 2006 are shown below.

Name of joint venture	Country of Incorporation	Principal Activity	Holding %
Annington Wates (Cove) Limited	Great Britain	Property Development	50%
Countryside Annington (Colchester) Limited	Great Britain	Property Development	50%

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

13 Investment in joint ventures (continued)

	Share of net assets/ (liabilities) £'000	Loan £'000	Total £'000
As at 1 April 2005	(567)	1,118	551
Additions	10	1,392	1,402
Loan repaid		(1,118)	(1,118)
Realisation of unrealised profit	485	-	485
Share of retained profit for the period	530	-	530
As at 31 March 2006	458	1,392	1,850

During the year ended 31 March 2005, the site at Cove was transferred from Annington Property Limited to Annington Wates (Cove) Limited. The Group share of the unrealised profit on the transfer has been partially realised during the year and, therefore, there has been a reduction in the amount of unrealised profit deducted from the carrying amount of the net assets in the joint venture.

14 Other investments

	Group Investment 2006 £'000
As at 1 April 2005	19,942
Exchange adjustment	289
Repayment of loan	(703)
As at 31 March 2006	19,528

As from 23 December 2004 the Group acquired a 9.5% investment in Autobahn Tank & Rast Holdings GmbH and a 0.01% investment in Autobahn Tank & Rast GmbH & Co. KG.

15 Debtors due within one year

	Group 2006 £'000	Group 2005 £'000
Amounts due from joint venture	1,287	3,594
Other debtors	5,201	681
Prepayments and accrued income	1,059	2,276
	7,547	6,551

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

16 Debtors due after one year

	Group 2006 £'000	Group 2005 £'000
Interest rate swap (note 21)	554	-
Amounts due from joint venture	-	5,450
	554	5,450

17 Creditors - Amounts falling due within one year

	Group 2006 £'000	Group 2005 £'000
Debenture loans (Note 20)	35,925	36,318
Bank loan (note 21)	3,000	-
Derivatives	407	-
Trade creditors	1,385	2,065
Other creditors	5,120	4,914
Accruals and deferred income	65,484	65,454
	111,321	108,751

18 Creditors - Amounts falling due after more than one year

	Group 2006 £'000	Group 2005 £'000
Debenture loans (Note 20)	2,332,499	2,425,037
Bank loans (note 21)	52,475	-
Derivatives	70,474	-
Accruals and deferred income	10,595	6,716
	2,466,043	2,431,753

19 Provision for liabilities (Group)

	Group 2006 £'000	Group 2005 £'000
Provision brought forward	2,362	3,257
Charged to profit and loss account	2,142	377
Utilised in year	(2,047)	(1,272)
Provision carried forward	2,457	2,362

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

19 Provision for liabilities (Group) (continued)

There is a legal obligation to provide for the adoption of private utilities on surplus property sites which are currently base dependent, for the supply of water and/or certain sewerage treatment. In addition, there is a constructive liability to provide for the adoption of certain utilities on certain sites which are not base dependent. Full provision has been made on the base dependent sites in accordance with the legal agreement and for all obligations which have crystallised on non base dependent sites. Where a liability has not yet crystallised a contingent liability exists (refer to note 32).

20 Loans and other borrowings (Group)

Reconciliation of Movements	2006 £'000	Amort'n £'000	Swaps £'000	Issues repaid £'000	2005 £'000
Debentures					
Annington Finance No. 1 plc					
7.75% Secured Bonds 2007/2011	191,874	(3,303)	-	-	195,177
8% Secured Bonds 2012/2021	442,493	(4,916)	-	-	447,409
Secured Floating Rate Notes 1997/2006	27,585	(582)	-	(36,318)	64,485
	661,952	(8,801)	-	(36,318)	707,071
Annington Finance No. 4 plc					
Secured Notes					
Zero Coupon Notes 2022 Class A	539,457	31,596	-	-	507,861
Zero Coupon Notes 2023 Class B	305,454	20,803	-	-	284,651
Fixed Rate Notes 2023 Class B3	458,187	1,841	1,678	(104,264)	558,932
Fixed Rate Notes Class C	146,194	224	-	-	145,970
Fixed Rate/FRN 2023 Class M	257,180	310	-	-	256,870
	1,706,472	54,774	1,678	(104,264)	1,754,284
	2,368,424	45,973	1,678	(140,582)	2,461,355
Annington Rentals (Holdings) Limited					
Bank loan secured:					
Royal Bank of Scotland 2012	55,475	32	-	55,443	-
	2,423,899	46,005	1,678	(85,139)	2,461,355
				2006 £'000	2005 £'000
Maturity of debt					
In one year or less, or on demand				38,925	36,318
Between one and two years				36,023	35,925
Between two and five years				108,292	108,204
In five years or more				2,240,659	2,280,908
				2,423,899	2,461,355

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

21 Financial liabilities and instruments

	Par Value of Debt £'000	31 March 2006 Balance Sheet Value £'000	Fair Value £'000
7.75% Secured bonds 2007/2011	180,400	191,874	195,714
8% Secured bonds 2012/2021	369,300	442,493	467,063
Secured Floating Rate Notes 1997/2006	27,238	27,585	27,634
Interest rate swap – pay fixed 7.30% and receiving floating	-	407	407
Annington Finance No. 1 plc	576,938	662,359	690,818
Secured Notes			
Zero Coupon Notes 2022 Class A	1,480,000	539,457	607,493
Zero Coupon Notes 2023 Class B	1,000,000	305,454	339,546
Floating Rate Notes 2023 Class B3	537,546	458,187	597,657
Fixed Rate Notes 2023 Class C	150,000	146,194	158,902
Fixed Rate/FRN 2023 Class M	260,000	257,180	265,490
Interest Rate Swap			
Pay fixed 6.93% and receiving floating Class B3	-	58,768	58,768
Pay fixed 5.28% and receiving floating Class M	-	11,706	11,706
Annington Finance No. 4 plc	3,427,546	1,776,946	2,039,562
Royal Bank of Scotland Bank loan secured 2012	55,900	55,475	55,475
Interest rate swap			
£46 million pay fixed 5.1925% and receive floating		(506)	(506)
£9.9 million pay fixed 5.18688% and receive floating		(48)	(48)
Annington Rentals (Holdings) Limited	55,900	54,921	54,921
	4,060,384	2,494,226	2,785,301
Weighted average interest rate	7.26%		
Weighted average period of fixed interest rates	12.10 years		

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

21 Financial liabilities and instruments (continued)

	Par Value of Debt £'000	31 March 2005 Balance Sheet Value £'000	Fair Value £'000
7.75% Secured bonds 2007/2011	180,400	195,177	198,038
8% Secured bonds 2012/2021	369,300	447,409	462,476
Secured Floating Rate Notes 1997/2006	63,556	64,485	64,679
Interest rate swap – pay fixed 7.30% and receiving floating	-	-	1,162
Annington Finance No. 1 plc	613,256	707,071	726,355
Secured Notes			
Zero Coupon Notes 2022 Class A	1,480,000	507,861	545,882
Zero Coupon Notes 2023 Class B	1,000,000	284,651	306,964
Floating Rate Notes 2023 Class B3	641,810	558,932	639,756
Fixed Rate Notes 2023 Class C	150,000	145,970	157,600
Fixed Rate/FRN 2023 Class M	260,000	256,870	247,762
Interest Rate Swap			
Pay fixed 6.93% and receiving floating Class B3	-	-	61,392
Pay fixed 5.28% and receiving floating Class M	-	-	5,300
Swap options	-	-	(4,347)
Annington Finance No. 4 plc	3,531,810	1,754,284	1,960,309
	4,145,066	2,461,355	2,686,664
Weighted average interest rate	7.29 %		
Weighted average period of fixed interest rates	12.70 years		

The Group's policy in regard to Borrowers' Risk Management is set out on page 3 of the Directors' Report.

Annington Finance No. 1 plc

Three classes of secured bonds were issued in November 1996. The interest rates and maturity dates are shown in the illustration on page 3 of the Directors' Report.

During the year, floating rate notes with a nominal value of £36.3 million (2005: £36.3 million) were repurchased.

The Notes issued under this securitisation are rarely traded and therefore there is no published market value. Given the nature of these Notes, a discounted cashflow approach has been used to arrive at a 'fair value'. These Notes are secured on the Guaranteed Minimum Rent, payable by the Ministry of Defence, over the 25 years ending 2021 and on the properties currently comprising of 42,244 Retained Estate properties upon which rent is payable (2005: 42,571). The applied discount rate is 4.86% and has been based on the risk assessment of this income. The fair values of interest rate swaps are based on actual market valuations as at 31 March 2006.

Facilities

The Group has one undrawn committed borrowing facility relating to the Annington Finance No. 1 plc funding.

	2006 £'000	2005 £'000
Expiring in one year or less	26,700	26,700

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

21 Financial liabilities and instruments (continued)

Annington Finance No. 4 plc

Five classes of Secured Bonds have been issued (original issue in December 1997 with a Tap Issue in February 2002 and a refinance in August 2005). The interest rates and maturity dates are shown in the illustration on page 3 of the Directors' Report.

All the Annington Finance No. 4 plc Notes are secured on the proceeds from the disposal of the Surplus Estate, rentals from the Surplus Estate and excess rental income from the Retained Estate after deducting any Guaranteed Minimum Rent received from the MoD. The Zero and Fixed Rate Notes are rarely traded and, therefore, there is no published market value. Given the nature of these Notes, a discounted cash flow approach has been used to arrive at a "fair value". The applied discount rates shown below have been based on the risk assessment of this income.

Secured Zero Coupon Notes 2022 Class A	5.46%
Secured Zero Coupon Notes 2023 Class B	6.56%
Secured Fixed Rate Notes 2023 Class C	7.66%
Secured Fixed Rate Notes 2023 Class M	7.11%

The value of the Secured Floating Rate Notes 2023 was based on the market rate applied to the repurchase of the respective bonds on the 10 April 2006. The valuation of the interest rate swap and swap options are based on actual market valuations as at 31 March 2006.

These Notes are also secured on the remaining Married Quarters Estate.

Annington Rentals (Holdings) Limited

The Company has entered into a Revolving Seven Year Facility Agreement dated 13 September 2005 with The Royal Bank of Scotland enabling it to borrow up to a maximum of £61 million against residential properties held by its subsidiaries using a loan to value ratio of 70%. Repayment of principal and interest are covered by two swap agreements which end 13 September 2012.

	2006 £
Maturity of debt	
On demand or within one year	3,000,000
After five years	52,475,096
	55,475,096

Facilities

The Group has two undrawn committed borrowing facilities relating to the Annington Finance No. 4 plc funding.

	2006 £'000	2005 £'000
Expiring in one year or less	240,000	240,000

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

21 Financial liabilities and instruments (continued)

Change in accounting policy

For the current year, the Company has adopted Financial Reporting Standards 25 and 26 which are effective for accounting periods beginning on or after 1 January 2005. The Company has taken advantage of the exemption available in FRS 25 and FRS 26 not to restate the comparative information to comply with these standards.

The impact of the adoption of FRS 26 on the opening balance sheet for 2005 is described below:

	31 Mar 05 £'000	Adjustment to Retained Earnings £'000	1 Apr 05 £'000
Interest rate swap			
Annington Finance No. 1 plc			
Pay fixed 7.3% and receive floating	-	(1,162)	(1,162)
Annington Finance No. 4 plc			
Pay fixed 6.93% and receive Floating Class B3	-	(61,392)	(61,392)
Pay fixed 5.28% and receive Floating Class M	-	(5,300)	(5,300)
Swap options	-	4,348	4,348
Impact on net assets	-	(63,506)	(63,506)

22 Called up share capital

	2006 £	2005 £
Authorised		
14 ordinary shares of £1 each	14	14
Allotted, called up and fully paid		
13 ordinary shares of £1 each – fully paid	13	13
	13	13

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

23 Reserves

Group	Profit and Loss Account £'000	Revaluation Reserve £'000
At 1 April 2005	(2,885)	2,279
Effects of change in Accounting Policy (note 21)	-	-
At 1 April 2005 (as restated)	(2,885)	2,279
Currency translation difference on foreign currency net investments	38	-
Surplus on valuation of properties	-	6,051
Transfers	(9,691)	9,691
Retained loss for the financial year	(6,971)	-
At 31 March 2006	(19,509)	18,021

Company	Profit and Loss Account £'000	Revaluation Reserve £'000
At 1 April 2005	-	-
Retained loss for the financial year	-	-
Revaluation of Investments	-	-
At 31 March 2006	-	-

24 Reconciliation of movements in equity shareholders' deficit

Group	2006 £'000	2005 £'000
Loss for the financial year	(6,971)	(1,274)
Movement in revaluation reserve	6,051	656
Currency translation difference on foreign currency net investments	38	-
Net change in equity shareholders' deficit	(882)	(618)
Equity shareholders' (deficit)/funds brought forward	(606)	12
Equity shareholders' deficit carried forward	(1,488)	(606)

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

24 Reconciliation of movements in shareholders' deficit (continued)

Company	2006 £'000	2005 £'000
Loss for the financial year	-	-
Movement in revaluation reserve	-	(6)
Net change in equity shareholders' deficit	-	(6)
Equity shareholders' funds brought forward	-	6
Equity shareholders' funds carried forward	-	-

25 Minority interests

	2006 £'000	2005 £'000
At 1 April 2005	1,104,591	895,261
Effects of change in accounting policy (Note 21)	(63,506)	-
At 1 April 2005 (as restated)	1,041,085	895,261
(Loss)/profit for the year	(23,674)	3,309
Currency translation difference on foreign currency net investments	35	-
Surplus on valuation of properties	373,767	206,021
At 31 March 2006	1,391,213	1,104,591

Minority interest comprises equity interests only.

26 Pension commitments

The Group contributes to employees' personal defined contribution pension schemes. The contributions made for the year were £306,587 (2005: £256,772).

27 Employees

The average number of persons, including directors, employed by the Group during the year was 56 (2005: 58).

28 Directors' emoluments

The directors received no emoluments in the current or preceding year.

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

29 Long term incentive plan

Wages and salaries include an accrual for the future payments of the discretionary Long Term Incentive Plans (LTIPs). The scheme has been established for the period from 1 April 2002 to 31 March 2007. Payments will be made in three instalments starting in April 2007. The accrual is based on a percentage of any excess value achieved above a minimum threshold and percentages allotted to individuals each year through to 31 March 2007.

30 Cash flow from operating activities

	2006 £'000	2005 £'000
Reconciliation of operating profit to net cash inflow from operating activities:		
Group operating profit	113,406	111,797
Depreciation charge	290	268
Decrease in debtors	3,380	2,838
Increase/(decrease) in creditors	4,691	(1,736)
Increase/(decrease) in provisions	95	(895)
Net cash inflow from operating activities	121,862	112,272

31 Reconciliation of movement in net debt

	At 31 March 2005 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 March 2006 £'000
Cash in hand and at bank	291,801	12,844	-	304,645
Debt due within 1 year	(36,318)	33,318	(36,332)	(39,332)
Debt due after 1 year	(2,425,037)	51,821	(81,678)	(2,454,894)
	(2,461,355)	85,139	(118,010)	(2,494,226)
Net Debt	(2,169,554)	97,983	(118,010)	(2,189,581)

Non-cash changes comprise amortisation of discounts and issue costs relating to debt issues.

Reconciliation of net cash flow movement in net debt

	2006 £'000
Increase in cash in hand and at bank	12,844
Cash outflow from decrease in debt	85,139
Amortisation of debt issue costs	(47,683)
Fair value adjustment of derivatives	(70,327)
Movement in net debt	(20,027)
Net debt at 1 April 2005	(2,169,554)
Net debt at 31 March 2006	(2,189,581)

Le Grand Annington Limited

Notes To The Accounts For The Year Ended 31 March 2006

32 Contingent liabilities

There is a contingent liability to allow for the adoption of private utilities on surplus property sites which are currently base dependent for their supply of water and sewerage treatment. This amounts to £24.9 million (2005: £25.9 million).

33 Post balance sheet events

Annington Finance No. 4 plc redeemed in part £47.7 million (2005: £27.8 million) of the Class B3 Secured Floating Rate Notes 2023 on the interest payment dates falling due April , July and October 2006 and January 2007.

34 Related party transactions

The directors consider the Nomura Group of companies, of which Nomura Investments (AH) Limited is the principal UK subsidiary, as a related party as during the year it had the ability to exercise a controlling influence over parts of the Annington Group through the Nomura Group's holding of warrants to subscribe for ordinary shares in Annington Homes Limited.

There were no transactions with related parties during the year.

35 Controlling party

Le Grand Annington Limited is the ultimate holding company for the consolidated Group. As at 31 March 2006, the Nomura Group of companies, of which Nomura Investments (AH) Limited is a subsidiary, had the ability to exercise a controlling influence over part of the Annington Group through Nomura Investment (AH) Limited's holding of warrants in relation to the shares of Annington Homes Limited (Note 12).